KPJ Healthcare (KPJ MK)

Healthy New Phase

	BUY (Maintained)
Share Price	RM3.10
Target Price	RM3.40
Upside	9.7%
Previous TP	RM3.05

Highlights

- KPJ unveiled its five-year strategic plan, focused on clinical capability. Brownfield bed capacity building implies 9.3% CAGR up until 2030.
- Maintain BUY with a higher target price of RM3.40 (from RM3.05).
- We like KPJ for: a) its strong execution capabilities, as exhibited with the record gestation of KPJ Kuala Selangor; b) inflection point of gestating loss-making hospitals; c) embarking on an aggressive multi-year brownfield expansion that is margin accretive; and d) a potential catalyst in the upcoming Sunway Healthcare IPO.

Analysis

- **KPJ's five-year strategic plan (2026-2030)** marks a shift from a traditional network of hospitals to a health system focused on clinical excellence, research and education. The strategy surrounds Centres of Excellence (CoEs) in four key specialties such as Heart & Lung, Oncology, Neuro & Stroke and Orthopaedics, supported by AI diagnostics, genomics and value-based care. This transformation aims to deepen clinical capability, strengthen research integration and drive sustainable long-term earnings growth.
- **Driving higher-acute growth via CoEs.** CoEs will function as the primary hubs for complex and specialised treatments, while simpler day-care procedures are channelled to other hospitals and ambulatory care centres (ACCs). This hub-and-spoke model is designed to enhance operational efficiency and optimise resource utilisation across the network. By concentrating higher-acute cases at CoEs, the strategy should lift revenue intensity while improving the utilisation of existing assets. To support this expansion, KPJ plans to add **500 new consultants by 2030,** of whom **around 60% will hold subspecialties,** on top of the current base of **about 1,500 consultants,** alongside the addition of **15 new operating theatres**.
- **2,200-bed brownfield expansion.** By 2030, the group targets the addition of 2,200 new beds to its current base of 3,934 operating beds (2025), representing a 56% capacity increase or a 9.3% five-year CAGR across nine hospitals. Expansion will prioritise high-occupancy facilities and be aligned with KPJ Healthcare's (KPJ) regional hub-and-spoke model, enabling more efficient scaling of capacity and better utilisation of resources across its network.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,922.2	4,258.4	4,746.7	5,293.3	5,927.8
EBITDA	935.5	998.0	1,091.0	1,202.3	1,306.6
Operating profit	656.5	687.8	773.5	847.9	910.3
Net profit (rep./act.)	331.1	366.0	414.8	469.7	516.3
Net profit (adj.)	331.1	366.0	414.8	469.7	516.3
EPS	7.4	8.1	9.2	10.4	11.5
PE (x)	42.9	38.8	34.2	30.2	27.5
P/B (x)	5.6	5.2	4.9	4.6	4.3
EV/EBITDA (x)	16.5	15.1	14.0	12.8	12.0
Dividend yield (%)	1.4	1.4	1.8	2.0	2.2
Net margin (%)	8.4	8.6	8.7	8.9	8.7
Net debt/(cash) to equity(%)	41.9	22.6	26.3	28.9	32.0
Interest cover (x)	5.4	5.8	5.7	6.2	6.7
ROE (%)	14.2	15.0	16.4	17.9	19.0
Consensus net profit	n.a	n.a	401.4	445.0	494.4
UOBKH/Consensus (x)	n.a	n.a	1.03	1.06	1.04

Source: KPJ Healthcare, Bloomberg, UOB Kay Hian

Analyst(s)
Philip Wong
philipwong@uobkayhian.com
(603) 2147 1996

Stock Data

GICS sector	Health Care
Bloomberg ticker:	KPJ MK
Shares issued (m):	4,398.8
Market cap (RM$m):	14,076.3
Market cap (US$m):	3,568.8
3-mth avg daily t'over (US$m):	3.9

Price Performance (%)

52-week high/low				RM3.2/RM2.4
1mth	3mth	6mth	1yr	YTD
14.7	22.6	31.7	21.3	19.0

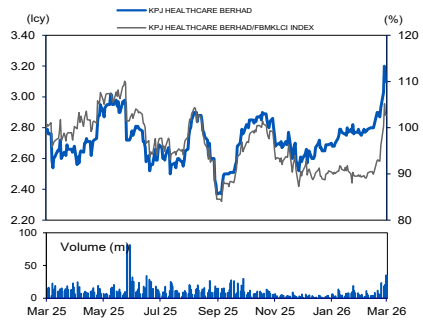
Major Shareholders

	%
Johor Corp	44.6
EPF	15.2
Waqaf An Nur	6.4

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	0.6
FY26 Net Debt/Share (RM)	0.2

Price Chart



Source: Bloomberg

Company Description

Malaysia's largest private hospital operator.

- **Emerging signs of earnings inflection.** KPJ Kuala Selangor turned EBITDA-positive within four months of commencing operations in Aug 25 and is expected to achieve pre-tax profit breakeven by year-end, alongside KPJ Batu Pahat and KPJ Bandar Dato' Onn. Damansara Specialist Hospital 2 (DSH2) will take longer to gestate given its ongoing capacity expansion, with 75 additional beds planned on top of its existing 127 beds. Meanwhile, KPJ Miri and KPJ Perlis are unlikely to reach profitability in the near term due to structural operating challenges.
- **Healthcare tourism.** Healthcare tourism remains an important growth avenue for KPJ, with 2025 revenue reaching RM263m (6.2% of revenue), representing a 13% yoy increase. The group aims to sustain double-digit growth for 2026 by expanding regional outreach and strengthening market penetration in key neighbouring countries. Through targeted marketing, regional partnerships and specialised clinical offerings, KPJ is positioning itself to capture rising cross-border patient flows into Malaysia's private healthcare sector.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM3.40** (from RM3.05) in tandem with our revised earnings and PE multiple of 36.8x (from 34.1), reflecting +1.5SD of its pre-pandemic five-year mean as a premium justified by: i) strong execution capabilities, as exhibited with the record gestation of KPJ Kuala Selangor; b) inflection point of gestating hospitals; c) embarking on an aggressive multi-year brownfield expansion that is margin accretive; d) highly domesticated and defensive shield against uncertain externalities; and e) a potential catalyst with the upcoming Sunway Healthcare (SHH) IPO.

Earnings Revision/Risk

- We adjust our 2026-28 earnings forecasts by 2/5/3.5% to factor in KPJ's updated brownfield expansion and revised margin assumptions. Key downside risks include: a) tightening of regulatory policy, b) delay in brownfield expansion, and c) inability to pass on operating cost increases to customers.

Share Price Catalyst

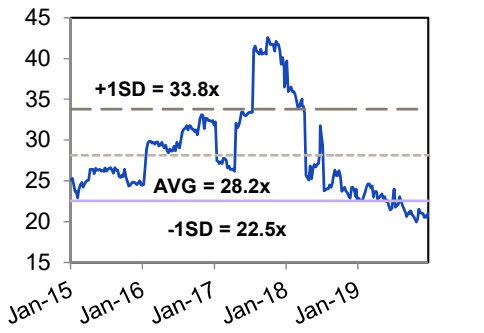
- **SHH's planned expansion** of three new hospitals in Seremban (2029), Iskandar Puteri, Johor (2030) and Putrajaya (2031) is unlikely to materially alter the competitive landscape for KPJ. In Seremban, the catchment area should be able to support multiple private hospitals, alongside incumbents such as KPJ Seremban and Columbia Asia Seremban, which benefit from well-established brand presence and patient loyalty. Meanwhile, SHH's hospitals in Putrajaya and Iskandar Puteri do not directly overlap with KPJ's existing hospital network, limiting the risk of meaningful patient diversion. Consequently, SHH's expansion is not expected to materially impact KPJ's competitive positioning.
- **SHH's eagerly anticipated IPO** is due on 18 Mar 26. At a listing price of RM1.45, it will command a market capitalisation of RM16.7b. It places Sunway Healthcare in the same space as its listed peers, IHH and KPJ. In terms of valuations, it is listing at 37.1x 2024 EV/EBITDA and 62.1x 2024 PE. While it is said that valuations should moderate sharply alongside its aggressive and fast gestating hospitals, commanded valuations appear to be a premium especially when compared with 2024 EV/EBTIDA (KPJ: 16.5x, IHH: 15.9x) and PE (KPJ: 42.9x, IHH:47.1). Given the significant premium that SHH is commanding, it could rerate the likes of KPJ and IHH.

Revenue Assumptions

	2026F	2027F	2028F
Inpatient volume growth (%)	6.7	8.3	8.7
Outpatient volume growth (%)	3.0	3.0	3.0
Occupancy rate (%)	66.0	66.0	66.0
Average Length of Stay (days)	2.5	2.5	2.5
Average no. of beds	4,234	4,584	4,984

Source: UOB Kay Hian

KPJ's Historical PE band (Pre-pandemic)



Source: Bloomberg

Environmental, Social, Governance (ESG)

Environmental
- **Greenhouse has emissions**. Reduce greenhouse gas (GHG) emissions by 25% across 42 facilities by 2025, supported by energy optimisation projects, renewable energy adoption and green electricity procurement.
- **Climate change**. Net Zero emissions by 2050, guided by KPJ's ESG roadmap and phased decarbonisation strategy.
Social
- **Community contribution. Expand access to affordable healthcare,** particularly for underserved communities through initiatives such as **Klinik Waqaf An-Nur (KWAN)** and outreach programmes.
- **Maintain high patient satisfaction levels**, supported by continuous monitoring of service quality and patient-centric healthcare delivery.
Governance
- **Transparency and accountability** is enhanced through **ESG reporting aligned with Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Bursa Malaysia sustainability frameworks**

Source: KPJ Healthcare

Operating Stats Snapshot KPJ vs IHH Healthcare vs Sunway Healthcare

	KPJ	IHH	SHH
No. of hospitals	28	18	4
No. of operating beds	3765	3324	1306
Hospital beds expansion (2025 onwards)	2200 by 2030	800 by 2028	~2000 by 2032
Revenue (RMm)	3854	4154	1852
Avg. revenue per licensed bed (RM '000)	900	1168	1327
EBITDA margin (%)	25.9	25.5	25.4
PAT margin (%)	10.3	13.3	13.9

Source: UOB Kay Hian
IHH: IHH Healthcare
SHH: Sunway Healthcare

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	**4,258**	**4,747**	**5,293**	**5,928**
EBITDA	998	1,091	1,202	1,307
Deprec. & amort.	310	318	354	396
EBIT	688	773	848	910
Associate contributions	49	49	49	49
Net interest income/(expense)	(173)	(192)	(194)	(195)
Pre-tax profit	**563**	**630**	**703**	**764**
Tax	(162)	(175)	(188)	(196)
Minorities	(36)	(41)	(45)	(51)
Net profit	**366**	**415**	**470**	**516**
Net profit (adj.)	366	415	470	516

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,792	3,283	3,811	4,420
Other LT assets	3,256	3,096	3,188	3,306
Cash/ST investment	1,006	860	729	568
Other current assets	990	1,074	1,185	1,316
Total assets	**8,045**	**8,313**	**8,914**	**9,611**
ST debt	269	269	269	269
Other current liabilities	1,048	1,086	1,159	1,301
LT debt	1,360	1,360	1,360	1,360
Other LT liabilities	2,364	2,388	2,684	2,984
Shareholders' equity	2,758	2,922	3,109	3,313
Minority interest	247	288	333	384
Total liabilities & equity	**8,045**	**8,313**	**8,914**	**9,611**

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	**893**	**891**	**1030**	**1171**
Pre-tax profit	563	630	703	764
Tax	(141)	-175	-188	-196
Deprec. & amort.	233	234	267	304
Associates	(49)	-49	-49	-49
Working capital changes	25	-34	-14	10
Other operating cashflows	263	285	311	338
Investing	**13**	**-708**	**-776**	**-894**
Capex (growth)	(270)	-708	-776	-894
Proceeds from sale of assets	241	0	0	0
Others	42	0	0	0
Financing	**(509)**	**-329**	**-362**	**-390**
Dividend payments	(185)	-251	-283	-312
Issue of shares	0	0	0	0
Proceeds from borrowings	83	0	0	0
Loan repayment	(193)	0	0	0
Others/interest paid	(214)	-78	-78	-78
Net cash inflow (outflow)	**397**	**-146**	**-108**	**-113**
Beginning cash & cash equivalent	**614**	**1,006**	**837**	**681**
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	**1,006**	**860**	**729**	**568**

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	23.4	23.0	22.7	22.0
Pre-tax margin	13.2	13.3	13.3	12.9
Net margin	8.6	8.7	8.9	8.7
ROA	4.5	5.0	6.2	6.5
ROE	13.3	14.6	15.6	16.1
Growth				
Turnover	9.2	11.5	11.5	12.0
EBITDA	6.2	9.3	10.2	8.7
Pre-tax profit	5.9	11.9	11.6	8.7
Net profit	9.7	13.4	13.3	9.8
Net profit (adj.)	9.7	13.4	13.3	9.8
EPS	9.7	13.4	13.3	9.8
Leverage				
Debt to total capital	54.2	19.6	18.3	16.9
Debt to equity	59.1	55.7	52.4	49.2
Net debt/(cash) to equity	22.6	26.3	28.9	32.0
Interest cover	5.8	5.7	6.2	6.7

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